

Emaar Properties PJSC

June 2014

Purpose of Report

Initiation

Recommendation

Accumulate

EMAAR.DB

EMAAR.UH

Last Closing Price

AED 9.1/share

Fair Value

AED 10.7/share

52 Week Hi - Lo

AED 11.2 – AED 5.05

Market Capitalization

AED 63 Billion

P/E'14 (x)

21.7

Price to Book (P/B) (x)

1.7

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*Emaar Properties PJSC, a Dubai-based Public Joint Stock Company listed on the Dubai Financial Market, is a global property developer. Emaar is strategically aligned to reap profits out of Dubai's surging economy, with its real estate development, and retail & hospitality business segments. We initiate coverage on the company with an **ACCUMULATE** rating at a target price of AED 10.7 per share, a 18% upside to the last closing price with a dividend yield of 2% for 2014 implying a total return of 20% over the next 12 months. The company pays out its full year dividends at the end of April each year. Further, our Target price implies a P/E(x)'14 of 25.5 and a P/B(x)'14 of 2.06.*

At a present P/E of 21.7x, and P/B of 1.7x, Emaar's near term earnings growth is driven by increased tourism and related activities during peak season, expected to positively impact its hospitality and retail segments. Additionally, the Malls Group IPO is expected to serve as a positive trigger for the stock.

Investment case: Potential Value Unlocking in Near-Term

Emaar's high quality retail and hotel assets are all set to reap rewards from the strong Dubai tourism growth. At the current market price, the market is implicitly valuing retail assets at P/E of c.6.5x 2014E (or cap rate of 15.3%) vs. c.18x (5.6%¹ cap rate) for global mall operators, as per Bloomberg comps and other sources. Emaar has recently confirmed its intent to sell 25% stake in its Malls group on the Dubai Financial Market through a secondary offering of shares, which we believe will help in benchmarking Emaar's retail portfolio against global peers, leading to potential positive effect on Emaar's price as financials of malls group enhance granularity.

New project launches and Robust Pre-Sales Indicative of Continued Recovery

Emaar unveiled projects with approx. 4,800 apartments, townhouses, villas and plots during 2013 & 2014, and more than 96% of the total units launched in 2013 & 2014 have been sold by the end of Q1'14.

Dubai's Growth Story Continues

Dubai has recorded GDP growth of 4.6% y-o-y in FY13, up from 4.1% y-o-y in FY12, according to Dubai Statistics Centre (DSC). The fastest growing sector in Dubai last year was once again hospitality, which recorded 13% growth, the third consecutive year of double-digit growth in this sector. The International Monetary Fund (IMF) has forecast Dubai's GDP growth at 5.1% in 2014. While construction and real estate sectors are expected to drive the strong growth, other key sectors like trade, transport and tourism are expected to remain robust.

Equity market valuations, real estate prices, and the evolution of credit default swaps (CDS) [the cost of insuring against default] point towards strong non-oil sector growth for Dubai in 2013. Dubai's sovereign CDS spreads declined from 269 basis points (bps) a year ago to the current levels of 135-142 bps indicating improved market confidence in government debt and creditworthiness of government related entities².

Year	FY12	FY13	FY14E	FY15E	FY16E
Revenues, AED bn.	8.2	10.3	11.9	13.1	14.5
EBIT, AED bn.	2.4	2.9	3.3	3.7	4.0
Net Income, AED bn.	2.1	2.6	3.0	3.3	3.7
Net Income Growth, %	18%	21%	16%	12%	10%
EBITDA Margin, %	38%	36%	35%	34%	34%
ROA, %	3.5%	4.1%	4.6%	5.0%	5.2%
ROE, %	6.7%	7.7%	8.4%	8.9%	9.2%
P/E(x)	9.9	16.5	21.7	19.4	17.6
P/B(x)	0.6	1.2	1.8	1.7	1.6
Dividend Yield, %	3%	4%	2%	2%	2%

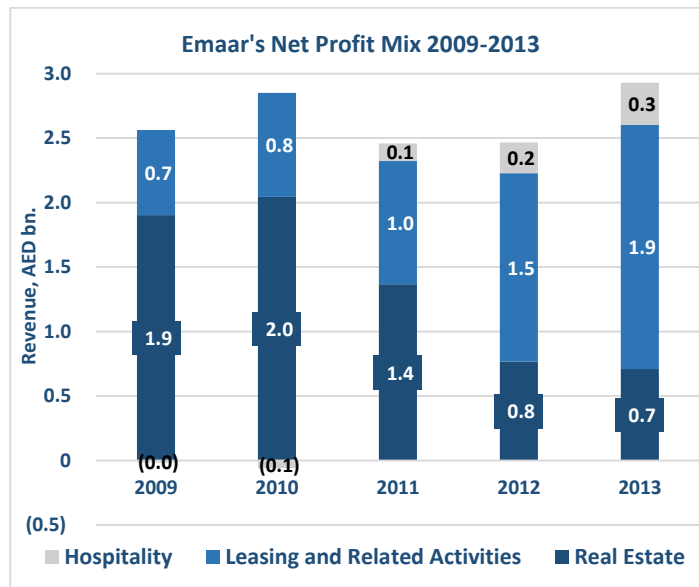
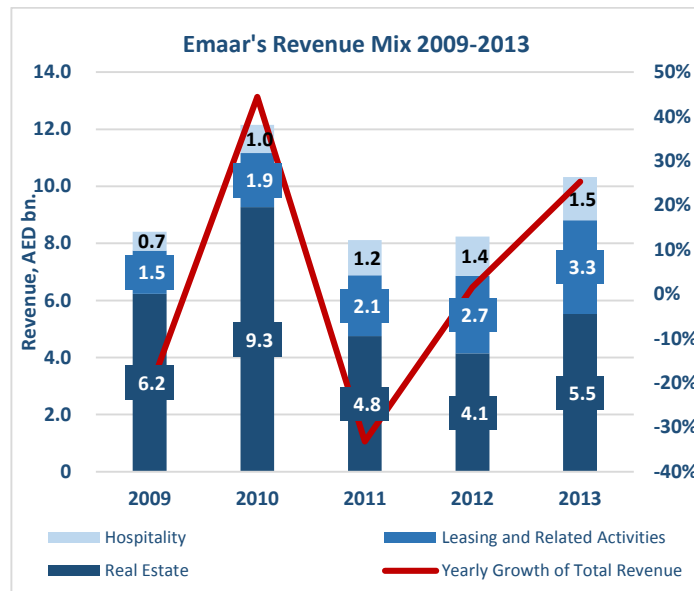
Source: Company Financials, OABInvest

¹ CBRE Global Investors, Global Vision H1 2014, OABInvest, The Wall Street Journal: Deutsche Bank

² Source: Bloomberg, Dubai 5-Yr CDS Spread

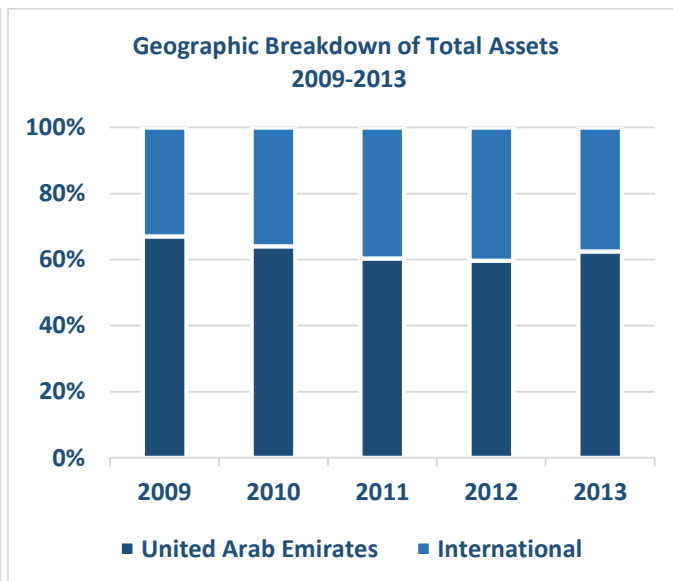
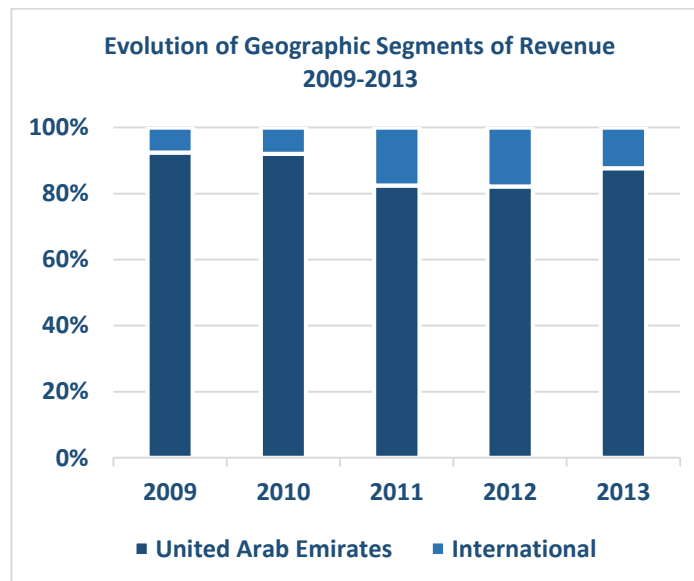
Company Profile

Emaar Properties PJSC, together with its subsidiaries, is engaged in the property investment and development business. It operates in three segments: Real Estate, Leasing and Related Activities, and Hospitality. The company develops and sells condominiums, villas, commercial units, and plots of land. It also develops, leases, and manages malls, as well as retail, commercial, and residential spaces. In addition, the company develops, owns, and manages hotels, resorts, services apartments, golf resorts, recreation clubs, and leisure activities, as well as Dubai Polo and Equestrian Club, and the Dubai Marina and associated yacht club. Further, it offers property management and utility services, as well as invests in the providers of financial services; and ICT and business IT support services. It has operations in the United Arab Emirates, Saudi Arabia, Syria, Jordan, Lebanon, Egypt, Morocco, India, Pakistan, Turkey, the United States, and Canada. Emaar Properties PJSC was founded in 1997 and is based in Dubai, the United Arab Emirates³.



Source: Company Financials, OABInvest

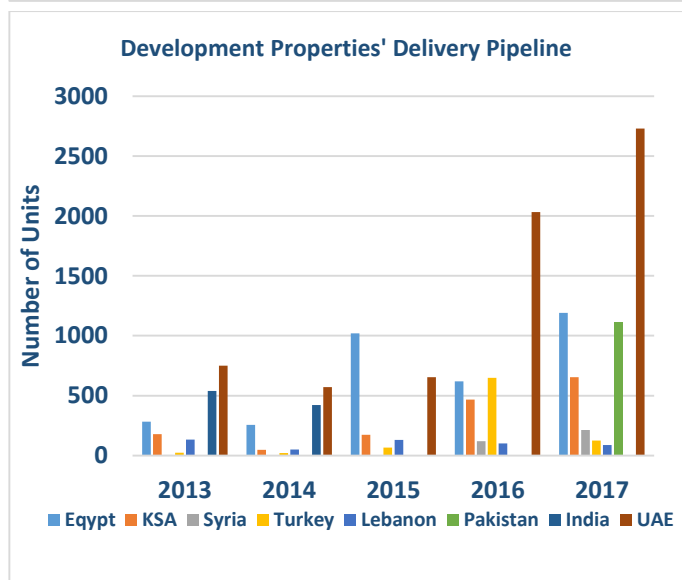
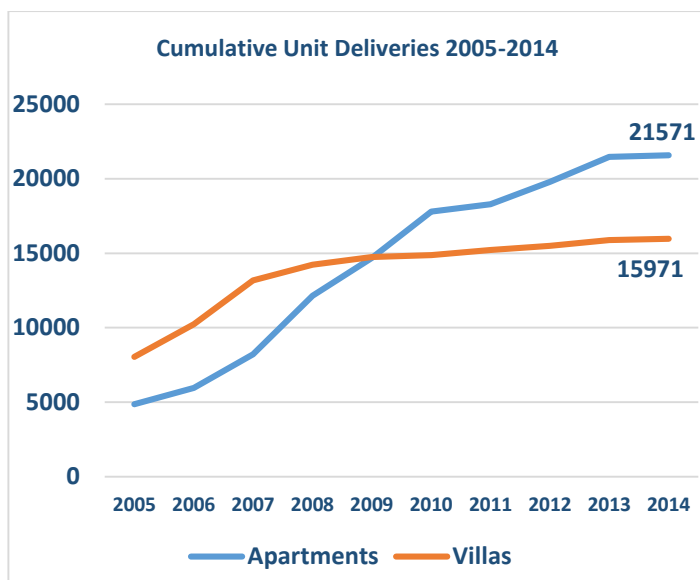
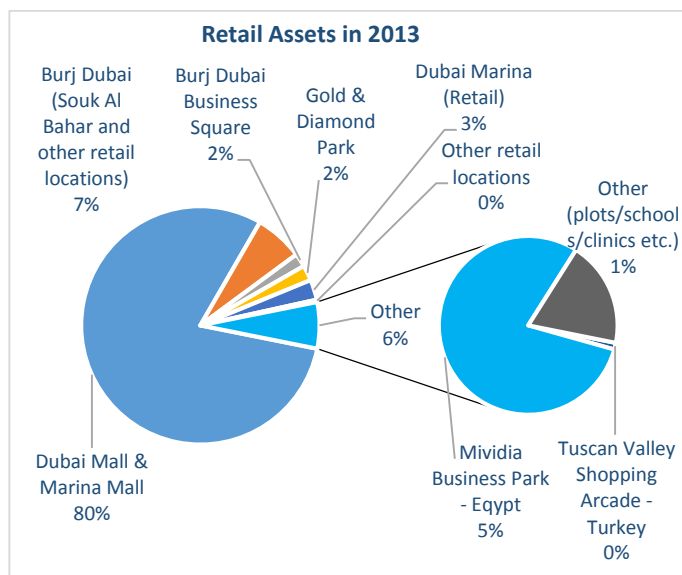
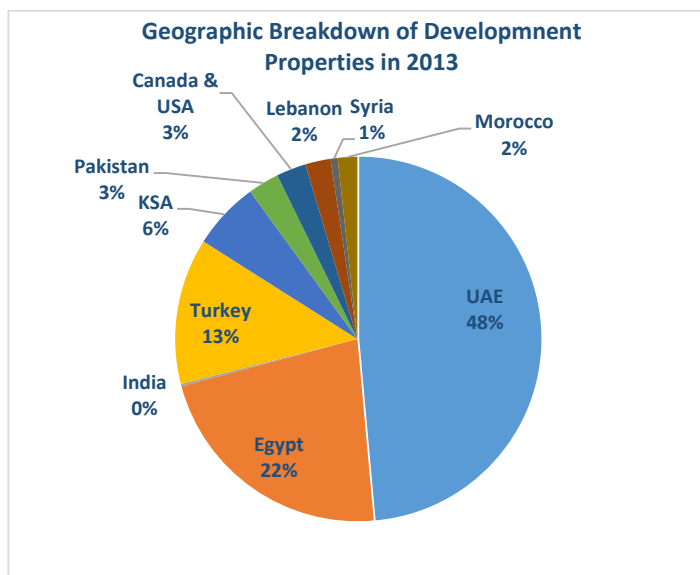
As can be observed from the charts above, the main revenue generation has historically come from real estate activities, whereas the main contribution to the bottom-line comes from leasing and related activities. Together, leasing and related activities and hospitality sectors accounted for roughly 87% of the net profit before tax in FY13.



Source: Company Financials, OABInvest

³ S&P Capital IQ

As can be observed from the chart above, the major portion of revenue comes from the UAE alone, at c88% average over the period 2007-2013, whereas about c63% of the company's total assets reside in this territory. This is mainly due to the fact that most of its retail and hospitality business is located in the UAE.



Source: Company Financials, OABInvest

The company segregates all such properties which are acquired, constructed or in the course of construction for sale in the ordinary course of business (at lower of cost or net realizable value, reviewed annually) as development properties, and about c48% of its total development properties are located in the UAE alone, with c22% in Egypt and c13% in Turkey, as of 2013. Till 2016, most of the development properties deliveries will come from the UAE, Egypt and KSA.

The company also segregates all properties held for rental or capital appreciation as investment properties, and carries them on its balance sheet at cost less accumulated depreciation or impairment (no depreciation is charged on land), and roughly c94% of its investment properties lie within the UAE (more specifically Dubai) as of 2013.

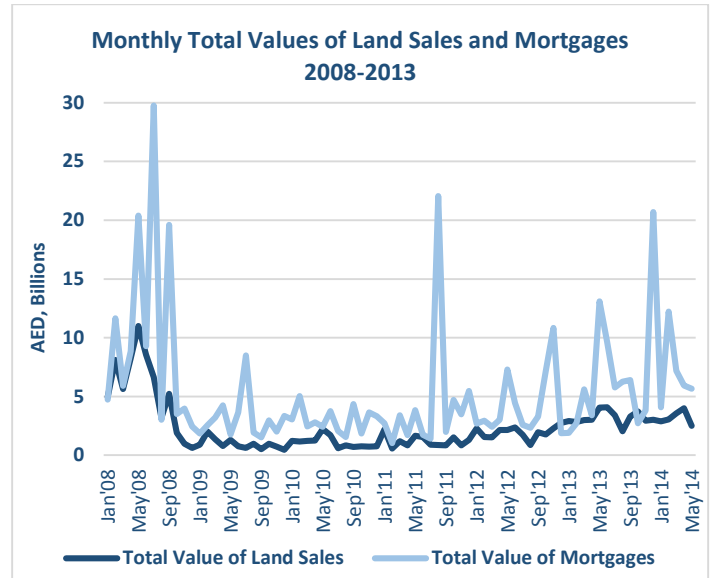
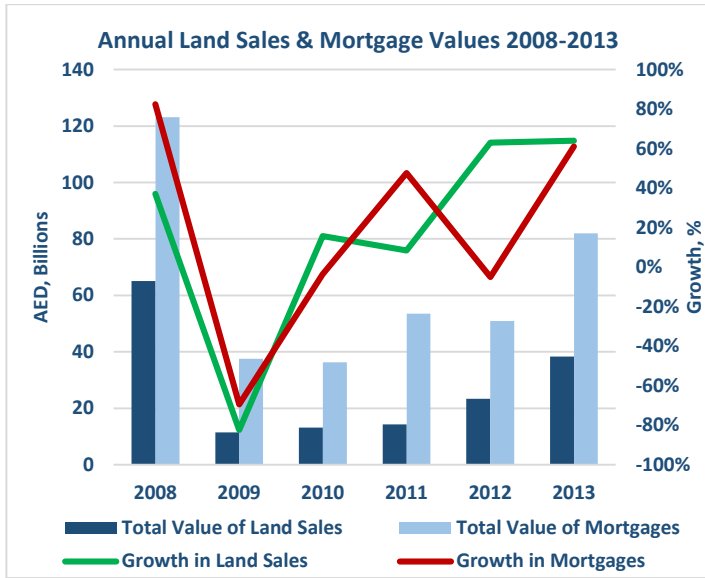
All of the company's hospitality assets are classified as fixed assets, and roughly c52% of the total are Hotels, Convention Centre & Serviced Apartments.

Hence, the real estate, tourism and hospitality industry outlook for the UAE is of utmost importance to our valuation of the company and key highlights are presented in the following pages.

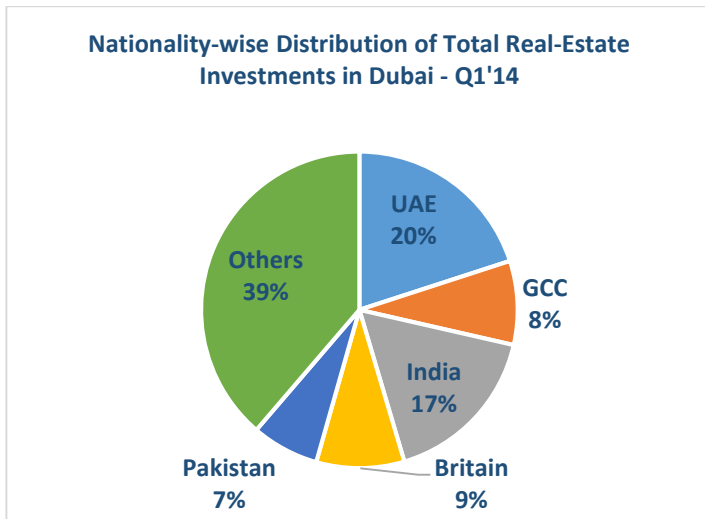
UAE Real Estate Outlook: Dubai in Focus

The Dubai Real-Estate Market –Upbeat on Volume and Value Data

As can be seen from the charts below, the land sales and mortgage values in FY13 are still well below FY08 levels. The monthly trends show a pick-up in activity over the period 2008-2013.



Source: Dubai Land Department, OABInvest



Source: Dubai Land Department, OABInvest

Near-term project funding not expected to be challenging for the real-estate market

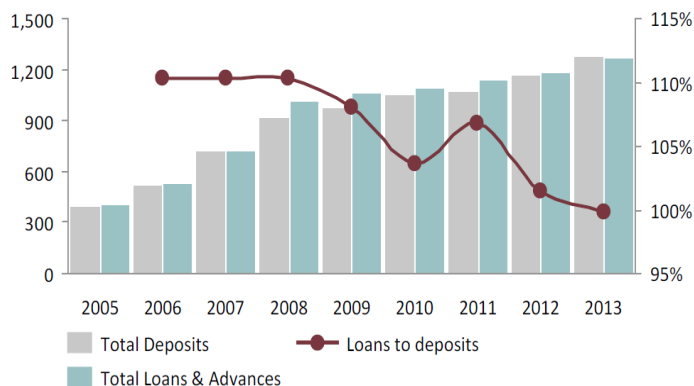
As per the UAE central bank, after a few years of sluggish growth, bank credit growth picked up pace in FY13, growing by 9.2% compared to 3.5% in FY12. The growth was underpinned by strong economic recovery, and is no surprise as the global economy continued its gradual recovery from the aftermath of the Global Financial Crisis (GFC). The UAE was heavily impacted by the GFC in much the same way as the developed economies. As a result, real-estate and equity prices declined to very low levels and did not show meaningful signs of recovery until the second half of FY11, well behind key developed economies. This means that the current recovery in asset prices has a “catch up” element to it which

Emaar Properties PJSC

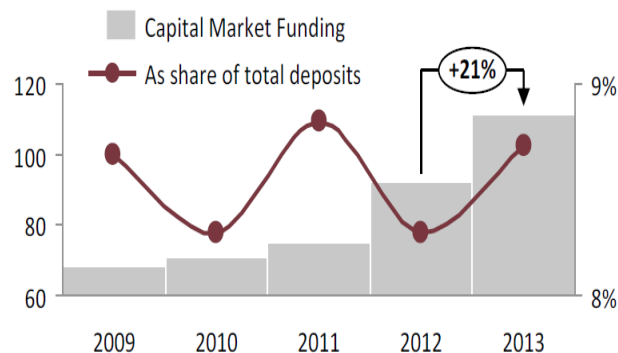
also applies to credit growth. It is interesting to note that the recovery gained momentum after large Government Related Entities' debts were restructured and real estate prices bottomed out in FY11⁴.

Based on a non-oil GDP growth of 5.5%⁵ and a bank credit growth of 9.2% for 2013, the estimated excess credit over GDP growth was around 3.7% in 2013 and as per the central bank of UAE, the gap between credit-to-GDP ratio and its long-term trend was negative at -0.04, suggesting **that credit level in the UAE financial system could grow faster without creating major imbalances.**

As far as loan-to-deposit ratio is concerned, the central bank notes that this ratio however has less relevance in the UAE than in other countries as banks have a high average capital adequacy ratio (CAR) of 19%. Some of this capital will logically end up funding part of the loans book. This ratio is also traditionally higher in emerging economies where capital markets provide a small share of corporate funding needs.



UAE Banks Loans to Deposit Ratio



UAE Banks and their Capital Market Funding

Source: UAE Central Bank: Financial Stability Report, 2013

The Central Bank has put regulations in place in order curb excessive credit growth especially for the real estate sector, such as the Loan-to-Value ratio which limits the amount banks can lend against residential real-estate and shares. These measures can mitigate risk arising from excessive increase in property prices or stock markets when fuelled by bank credit. In order to curb speculation activity in real-estate, the Dubai Land Department has increased property transfer fee from 2% to 4%.

Additionally, the central bank also stresses that while pre-2008 crisis period was marked by a rapid credit growth, the current recovery is not. Furthermore, UAE banks play a relatively minor role in the real estate sector as their exposure to the segment totals AED 287 Bn or less than 23% of total loans as of 2013. Also, bank finance for the purchase of residential property increased by 12% in 2013 or by AED 12.7 Bn. While this indicates that banks were increasingly participating in financing the real estate recovery, the funds provided by the banking sector was only enough to finance the purchase of less than 30% of the residential properties that were completed in 2013. Therefore bank lending cannot be considered a significant driver of real estate prices. In other words, analyses of banking data support the hypothesis that the current market recovery is mostly driven by equity buyers and/or reliance on external funding sources.

Increased Investor Confidence Reflected in Dubai's 5Yr CDS Spread Trend

The 5 year credit default swap rate has come down markedly from around 270 basis points mid-FY13 to about 137 basis points mid-FY14, indicating increased investor confidence in the Emirate of Dubai. A snapshot of Dubai's 5 yr CDS spread graph from Bloomberg is shown below:

4 UAE Central Bank: Financial Stability Report, 2013

5 Preliminary Figures from UAE National Bureau of Statistics, Central Bank, IMF



Source: Bloomberg

The following screenshot depicts a comparison of Dubai Financial Market General Index Growth (DFMGI) as compared to the 5 yr CDS rate growth over last one year (This graph is not normalized, hence must be read on separate axes).



Source: Bloomberg

Dubai Property Price and Rental Increase has slowed down post-2013: Yet Positive Sentiment prevails based on various factors

The year 2013 saw recovery of almost all sectors of the Dubai Real Estate market (residential, retail, hotel, industrial and offices). Except for the office sector, all other sectors witnessed strong and relatively broad-based growth. The recovery of office sector remained more selective and concentrated in a few prime locations. The residential market ended 2013 on a strong note, with prices increasing by 22% and rents increasing by 17% on yearly basis⁶.

In terms of Dubai residential sales prices, Q1'14 saw 6% and 3% increase in sales prices of villas and apartments⁷. The previous quarters' incredible growth rates were widely considered unsustainable and prices peaked in many areas, as affordability still remained an issue (with newly implemented higher Loan-to-Value ratio for mortgages, resulting in higher cash requirement). Whilst there were no declines, most established areas saw their prices stabilize, as buyers looked at opportunities within lower priced communities with growth potential. It is expected that 2014 will see a continuation of the current trend, with moderate sales price growth forecast throughout the year⁸.

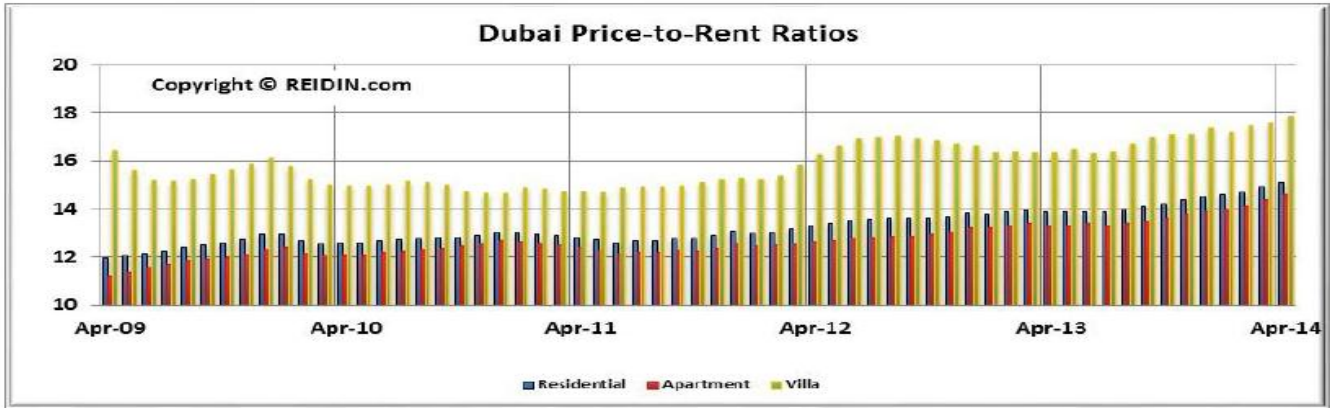
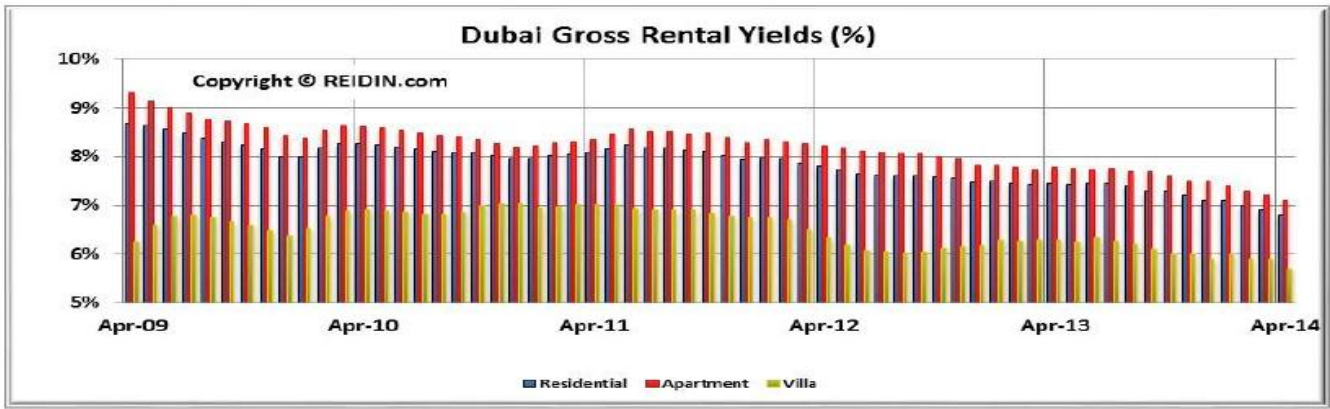
In terms of Dubai residential leasing, apartment and villa rental rates grew, on average, by 5% and 3% respectively in Q1'14. These figures indicate that although market sentiment is positive, affordability for tenants is important. Furthermore, with increased rental rates, many tenants are considering to purchase property to offset future rent increases. However, with the continued increase in sales prices and low LTV mortgages, entering the property market has become a more expensive option.

Jones Lang LaSalle (JLL), the real estate investment and advisory firm, notes that positive sentiment will continue as fears of another property Bubble in Dubai remain abated, as there are many differences this time around that makes for a 'smarter' market. Some of these differences are that investors are more cautious, regulations are better, and property development is changing with larger projects being phased in line with demand, less reliance on pre-sales and sub-developers and significant levels of new supply being provided. While there was a lot of excitement building up to the successful bid for Expo 2020 at the end of 2013, JLL expects there will be limited direct impact in 2014 because there will only be limited activity this year.

⁶ Jones Lang LaSalle, Dubai Real Estate Market Overview, Q4'13

⁷ Asteco Property Management, Dubai Report, Q1 2014

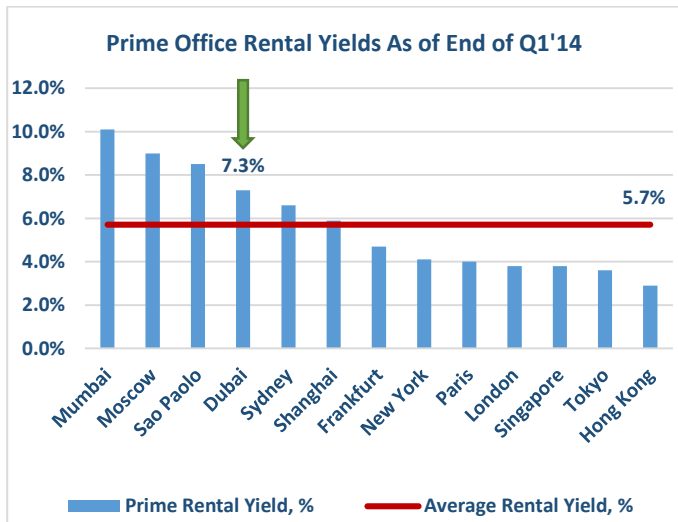
⁸ Asteco Property Management, Dubai Report, Q1 2014



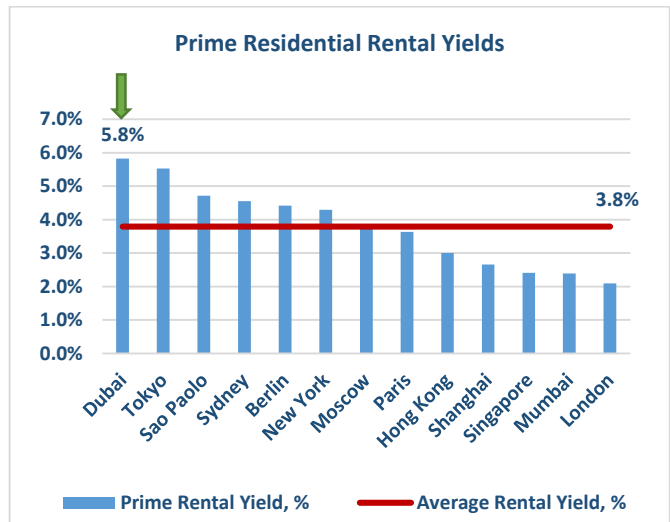
Source: REIDIN United Arab Emirates Residential Property Price Indices: April 2014 Results -Edition: 65, May 29, 2014⁹

The charts above also indicate that rental yields have fallen and price-to-rent ratio has increased to more than April 2009 levels, indicating that rental increase and price increase should slow down more going forward.

But Dubai still remains as an attractive real estate investment destination in terms of prime office and residential rental yields as compared to other cities of the world. Hence, we expect real estate investment to continue its growth in Dubai in the coming years as well.



Source: JLL Global Market Perspective Q2'14, OABInvest



Source: Global Property Guide, OABInvest

⁹REIDIN UAE Residential Property Price Indices (RPPIs) are designed to be a reliable and consistent benchmark of housing sales and rent prices in Dubai and Abu Dhabi. The purpose of the indices is to measure the average differences in house prices in a particular geographic market through a timeline.

Dubai Retail & Hospitality Sector Outlook

Retail & Hospitality Sector Poised for further growth in terms of Rentals, Retail Revenues and RevPAR¹⁰

Dubai has established itself as one of the leading global tourism hotspots. With significant ongoing investment in tourism infrastructure, Dubai is expected to continue to climb the global tourism rankings.

The retail market in Dubai is expected to experience continued strong growth supported by the overall optimism in the market, a growing number of tourists and improved purchasing power. The Dubai Mall has set an ambitious target of attracting 100 million annual visitors by 2020. During 2013, the average increase in lease/rentals across primary super regional malls¹¹ has been 2.5% (to stand at an average of AED 5,100/sqm)¹².

In lieu of this performance, many new projects and expansions of existing malls have been announced by various developers. (e.g. Emaar's Dubai Mall is expected to add a further c55% of its current Gross Leasable Area (GLA) of 3.7 million sq. f. to its overall size).

The table below summarizes the historical performance of the hotels and hotel apartments sector.

Dubai Indicators	2009	2010	2011	2012	2013
Population	1,645,973	1,770,978	1,905,476	2,003,200	2,213,845
y-o-y, %	-	8%	8%	5%	11%
Passenger Movement at Dubai International Airport	40,901,752	47,180,628	50,977,960	57,684,466	66,496,000
y-o-y, %	-	15.4%	8.0%	13.2%	15.3%
No. of Hotels	352	382	387	399	416
Total No. of Rooms	43,419	51,115	53,828	57,345	61,670
Hotel Occupancy Rate, %	70%	70%	74%	78%	80%
No of guests at Hotels	6,105,813	6,561,999	7,262,730	7,823,117	8,641,355*
y-o-y, %	-	7%	11%	8%	10%
Total Residence Nights	16,698,406	19,027,498	23,266,874	26,003,103	29,049,743*
y-o-y, %	-	14%	22%	12%	12%
Hotel Apartments Buildings	188	191	188	200	198
Number of Flats	18,068	19,840	21,015	23,069	22,815
Flats Occupancy	11,924	13,590	15,572	17,809	-
Flat Occupancy Rate	66%	69%	74%	77.20%	-
No of Guests at Hotel Apartments	1,477,266	1,732,133	1,832,840	2,134,045	1,735,939**
y-o-y, %	-	17%	6%	16%	-
Residence Nights	6,148,372	7,599,181	9,581,315	11,442,350	12,246,757**
y-o-y, %	-	24%	26%	19%	-

Source: Dubai Statistics Centre, Dubai Civil Aviation Authority, Dubai Department of Tourism & Commerce Marketing, OABInvest

*Preliminary Figures

**Nine Month Figures only

Jones Lang LaSalle expects Dubai hotels stock to stand at 65,750, 69,500 and 74,600 at the end of 2014, 2015 and 2016 respectively based on Dubai's expectation of 25 million total tourists between October 2020 and April 2021, for the Expo 2020. Looking at the Dubai market in 2013 and the forecast (forecasted by STR Global in conjunction with Tourism Economics) for 2014 and 2015, as per Deloitte, over the next 2 years

¹⁰ RevPAR is Revenue per Available Room

¹¹ Defined as good performing malls with high levels of turnover and Gross Leasable Area (GLA) of above 90,000 sqm

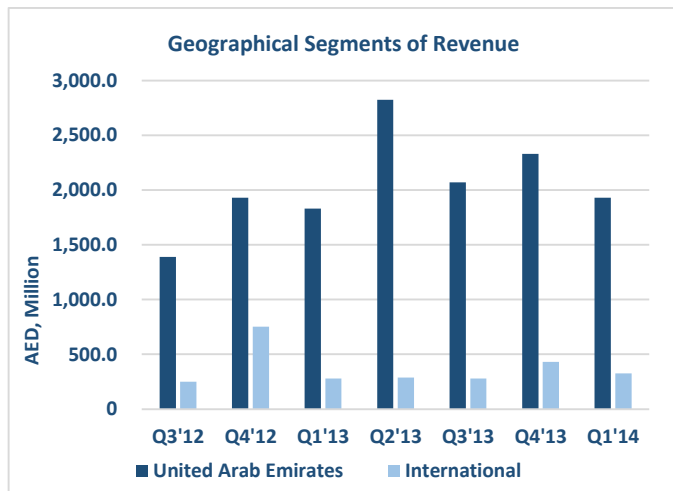
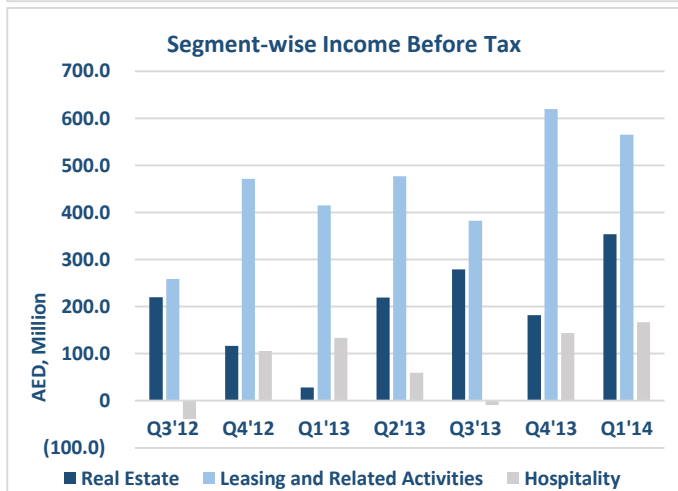
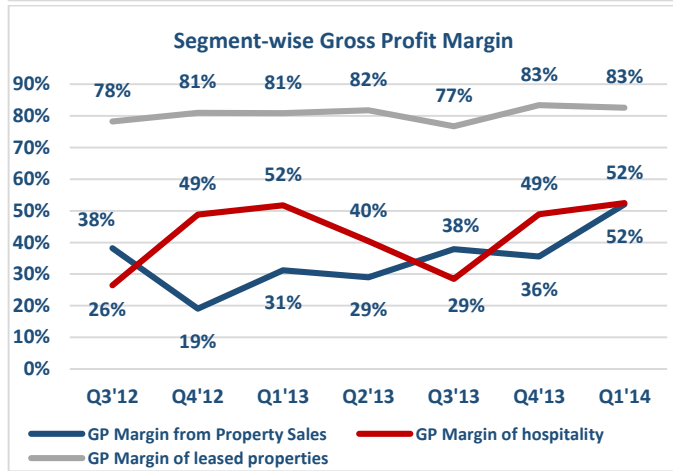
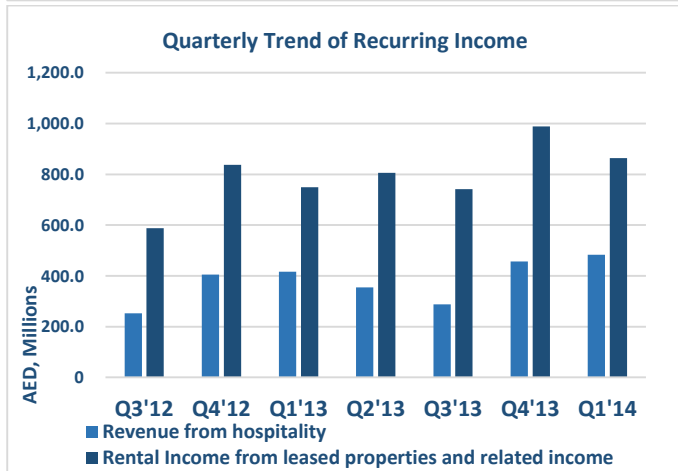
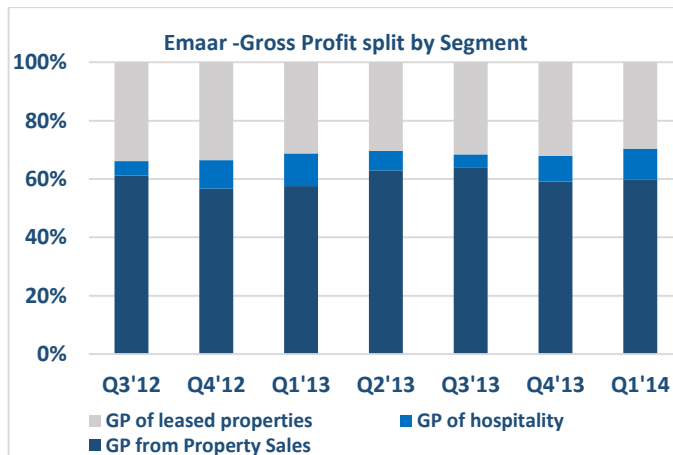
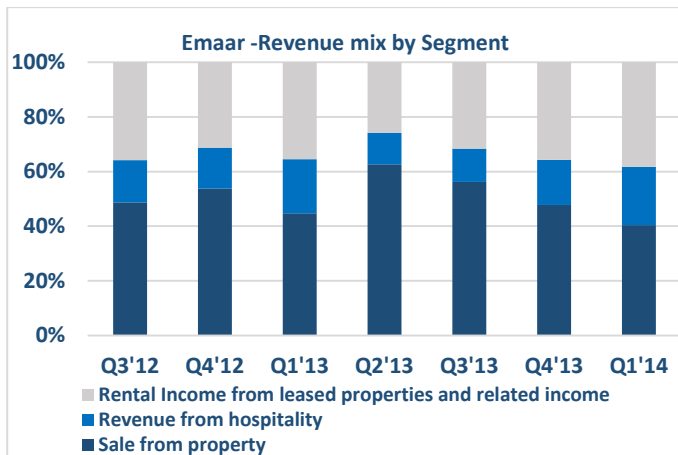
¹² Jones Lang Laselle, Dubai Real Estate Market Overview, Q4'13

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occupancy growth is expected to be below the average for the last 5 years, average Daily Rate (ADR) growth in the next 2 years is expected to be higher than during the last 5 years, and RevPAR growth is expected to exceed growth during the last 5 years¹³.

EMAAR'S Performance Highlights: Q1'14

Emaar has recorded improvement in its gross profit margin from recurring-income generating assets during Q1'14, with GP Margin standing at 71.5%, as compared to 70.5% during Q1'13. Since recurring income portfolio has historically contributed, on average, c65% to the total gross profit of the company, hence this increase in margin has translated significantly to the increase in net profit recorded for this quarter, at c55% y-o-y, as net profit attributable to common shareholders stands at AED 862mn for the quarter.



Source: Company Financials, OABInvest

¹³ Deloitte-Middle East Hotel Market Insight Report Dubai, UAE Issue 1 - April 2014

Valuation

Methodology

Our fully diluted 12-Month Target Price of **AED 10.7** is based on our sum-of-the-parts (SOTP) valuation analysis. We calculate Emaar's SOTP using a combination of:

1. Discounted cash flows for all local and international projects with development details (provided in company presentations and disclosures)
2. Investment in associates at carrying book value, less holding companies' discount, less any other discounts, or current market value if associate is a listed entity (only for Emaar Economic City).
3. Fair value of retail assets derived using a capitalization rate of 7.6% on Emaar's 2014E retail net operating income. We conservatively expect c13% growth in retail NOI for 2014E, even though average yearly growth rate over the last three quarters has been c21%. (2013: c22% y-o-y).
4. Fair value of hospitality business derived using a capitalization rate of c10% on 2014E net operating income, with NOI growing at c15% for 2014E (2012: 19%, 2013:14%).

Total Assets, Q1'14, AED mn.		66,905				
	Carrying Book Value, AED mn	% of Assets	Fair Value, AED mn	Adj. to Book Value, AED mn.	% of Adjusted NAV	Adjustment to BV/share
Development Properties	25,867	39%	31,487	5,620	7%	0.78
Investment in Associates	5,896	9%	4,597	(1,299)	-2%	-0.18
Investment Properties						
Dubai Malls Group	7,466	11%	39,629	32,163	42%	4.49
Total Value of Investment Properties	15,358	23%	40,055	32,163	42%	4.49
Fixed Assets						
Hotels, Convention Centre & Service Apartments	4,130	6%	7,650	3,520	5%	0.49
Total Value of Fixed Assets	8,016	12%	10,854	2,838	4%	0.40
Fair Value Adjustment to NAV				39,321		
Book Value of Equity, Q1'14				37,464		
Net Asset Value				76,786		
Fully Diluted No. of Shares Outstanding				7,160		
NAV per share, AED				10.7		
Upside/(Downside)				18%		

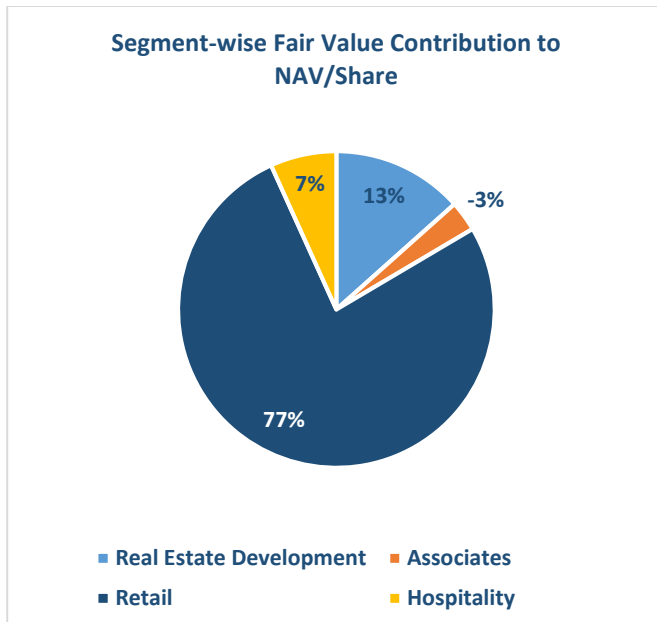
Note: For full detail, please refer to Appendix

Source: Company reports, OABIInvest

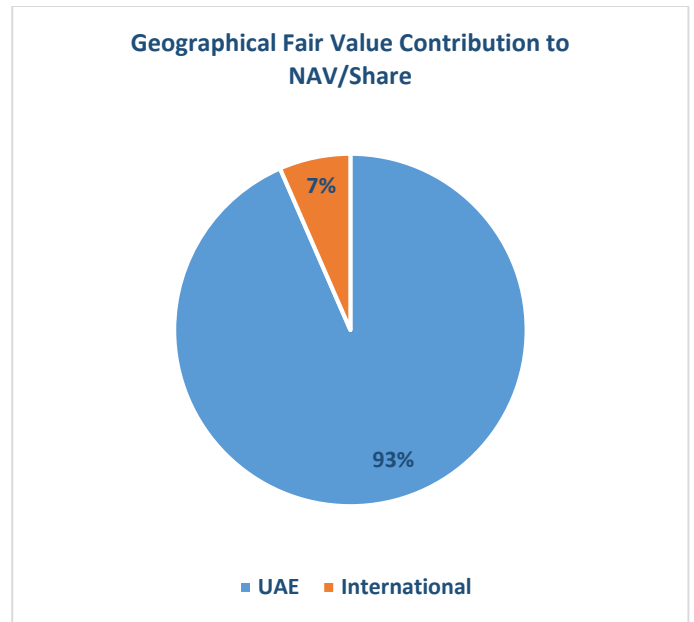
Sensitivity Analysis

Sensitivity Analysis	-2%	-1%	CapRate	+1%	+2%	+3%
Cap Rate, %	5.6%	6.6%	7.6%	8.6%	9.6%	10.6%
Implied 1 Yr Average Dubai 5-Yr CDS, basis points	0	101	201	301	401	501
Dubai Malls Group Adjustment to NAV/Share, AED	6.5	5.3	4.5	3.8	3.3	2.9
Target Price (Emaar NAV/Share), AED	12.7	11.6	10.7	10.1	9.6	9.2
Implied P/E'14, (X)	30.2	27.5	25.5	24.0	22.8	21.8

Source: Company Financials, OABIInvest



Source: Company reports, OABIInvest



Source: Company reports, OABIInvest

Key Risks to Valuation

Upside Risks

- Better than expected performance on the UAE recurring-income assets, especially possible positive impact from listing of Malls Group in the capital market.
- Growth in international recurring income assets as well as growth in real-estate prices.

Downside Risks

- Weaker than expected performance from UAE operating assets which are major contributors to valuation.
- International subsidiaries' exposure to geopolitical and other risks could lead to possible negative impact on Emaar's valuation.

Total Assets, Q1'14, AED mn.		66,905					
	Carrying Book Value, AED mn	% of Assets	Fair Value, AED mn	Adj. to Book Value, AED mn.	% of Adjusted NAV	Adjustmen t to BV/share	Comment
Development Properties							
UAE	12,562	18.8%	16,921	4,359	6%	0.6	Discounted Cash Flow, WACC 25%
International	13,305	19.9%	14,566	1,261	2%	0.2	Discounted Cash Flow, WACC 13%
Total Value	25,867	38.7%	31,487	5,620	7%	0.8	
Investment in Associates							
Emaar MGF	1,897	2.8%	1,328	(569)	-1%		40% discount, due to uncertainty regarding litigation in local courts
Emaar the Economic City	2,210	3.3%	2,287	77	0%		Attributable Market Value in AED at Report Issue Date
Amlak Finance	698	1.0%	-	(698)	-1%		100% discount, lack of clarity
Emaar Industries & Investment	140	0.2%	126	(14)	0%		Reported Book Value, less 10% holding company discount
Dead Sea Co. for Tourist & Re.Invest	133	0.2%	120	(13)	0%		Reported Book Value, less 10% holding company discount
Emril Services	106	0.2%	95	(11)	0%		Reported Book Value, less 10% holding company discount
Emaar Bawadi LLC	439	0.7%	396	(44)	0%		Reported Book Value, less 10% holding company discount
Turner International ME	273	0.4%	246	(27)	0%		Reported Book Value, less 10% holding company discount
Total Investment in Associates	5,896	8.8%	4,597	(1,299)	-2%	-0.2	
Investment Properties							
Dubai Mall & Marina Mall	6,329	9.5%					
Burj Dubai (Souk Al Bahar and other retail locations)	516	0.8%					
Burj Dubai Business Square	145	0.2%					
Gold & Diamond Park	165	0.2%					
Dubai Marina (Retail)	216	0.3%					
Other retail locations	95	0.1%					
Dubai Malls Group	7,466	11.2%	39,629	32,163	42%	4.5	7.6% capitalization rate (global peers (5.6%) plus Dubai's 1-yr average of 5-Yr CD spread), applied on 2014E NOI
Other (plots/schools/clinics etc.)	395	0.6%	395	-	0%	0.0	
Tuscan Valley Shopping Arcade -Turkey	25	0.0%	25	-	0%	0.0	
Mividia Business Park - Egypt	6	0.0%	6	-	0%	0.0	
Total Value	15,358	23.0%	40,055	32,163	42%	4.5	
Fixed Assets							
Hotels, Convention Centre & Service Apartments	4,130	6.2%	7,650	3,520	5%	0.5	10% capitalization rate (as global peers), applied on 2014E NOI
Emaar Business Park	44	0.1%	72	28	0%		Assuming 5% yield on reported fair value, 10% capitalization rate (as global peers)
District Cooling Plant	686	1.0%	343	(343)	0%		Assuming 5% yield on reported fair value, 10% capitalization rate (as global peers)
At the Top	112	0.2%	56	(56)	0%		Assuming 5% yield on reported fair value, 10% capitalization rate (as global peers)
Leisure and Entertainment & Medical centre	622	0.9%	311	(311)	0%		Assuming 5% yield on reported fair value, 10% capitalization rate (as global peers)
Other assets (Self occupied, CWIP, Sales centre)	2,422	3.6%	2,422	-	0%		
Total Value	8,016	12.0%	10,854	2,838	4%	0.4	
						Per Share	
Fair Value Adjustment to NAV				39,321		5.5	
Book Value of Equity Attributable to Common Shareholders, Q1'14				37,464		5.2	
Fully Diluted No. of Shares Outstanding				7,160			
Net Asset Value				76,786		10.7	
Upside/(Downside)						18%	

Source: Company Financials, OABIInvest

Income Statement					
For the Fiscal Period Ending	2012	2013	2014E	2015E	2016E
Currency	AED	AED	AED	AED	AED
Units	Thousands	Thousands	Thousands	Thousands	Thousands
Revenues					
Revenues	8,239,928.0	10,328,472.0	11,852,656.6	13,141,188.1	14,478,504.8
Gross Profit/loss	4,178,877.0	5,149,125.0	5,964,121.5	6,658,434.7	7,336,032.2
Expenses					
Selling, Marketing, General and Administration Expense	(1,919,288.0)	(2,440,119.0)	(2,785,374.3)	(3,088,179.2)	(3,402,448.6)
Other Operating Expenses	(148,203.0)	(176,148.0)	(202,142.4)	(224,117.8)	(246,925.2)
Total Expenses	(2,067,716)	(2,595,737)	(2,991,046)	(3,329,811)	(3,682,437)
Earnings before Taxes	2,111,161.0	2,553,388.0	2,973,075.1	3,328,623.3	3,653,595.0
Taxes and Other Expenses					
Provision for Income Tax	(4,237.0)	(12,773.0)	(14,872.4)	(16,651.0)	(18,276.6)
Minority Interest (After Tax)	12,200.0	27,521.0	32,044.5	35,876.7	39,379.3
Total taxes and Other Expenses	7,963	14,748	17,172	19,226	21,103
Net Income (Loss)	2,119,124.0	2,568,136.0	2,990,247.1	3,347,848.9	3,674,697.6

Source: Company Financials, OABInvest

Balance Sheet					
Balance Sheet as of:	2012	2013	2014E	2015E	2016E
Currency	AED	AED	AED	AED	AED
Units	Thousands	Thousands	Thousands	Thousands	Thousands
Current Assets					
Cash and Bank Balance	3,710,561.0	8,572,804.0	8,598,186.0	8,799,824.7	8,116,791.8
Trade Receivables	958,608.0	547,391.0	622,343.1	685,144.5	754,868.4
Development Properties	26,998,226.0	25,866,716.0	26,592,399.3	28,523,000.0	31,520,000.0
Other Assets, Receivables, Deposits and Prepayments					
Loans to Associates					
Loans to Associates and Joint Ventures	3,104,026.0	3,145,148.0	3,145,148.0	3,145,148.0	3,145,148.0
Total Current Assets	34,771,421	38,132,059	38,958,076	41,153,117	43,536,808
Non Current Assets					
Property, Plant and Equipment	8,209,114.0	8,015,681.0	8,266,126.3	8,197,835.3	8,172,189.1
Investment Properties	7,830,730.0	7,891,111.0	8,285,666.6	8,617,093.2	8,961,776.9
Other Assets, Receivables, Deposits and Prepayments	2,600,569.0	2,867,321.0	3,290,454.9	3,648,168.3	4,019,425.2
Total Non Current Assets	26,379,770	26,799,872	27,868,007	28,488,856	29,179,150
Total Assets	61,151,191.0	64,931,931.0	66,826,083.1	69,641,973.0	72,715,958.5
Current Liabilities					
Trade and Other Payables	8,277,985.0	8,022,810.0	8,342,566.8	8,528,424.2	8,735,070.8
Non Current Liabilities					
Interest-bearing Loans and Borrowings	6,212,555.0	6,356,918.0	6,610,279.1	6,757,544.2	6,921,281.8
Retention Payable	698,744.0	592,579.0	616,196.8	629,924.6	645,187.8
Total Non Current Liabilities	20,339,266	22,366,902	21,468,626	21,946,908	22,478,689
Total Liabilities	28,617,251	30,389,712	29,811,193	30,475,333	31,213,760
Shareholders' Equity					
Total Shareholders Equity	32,533,940	34,542,219	37,014,890	39,166,640	41,502,198
Total Liabilities & Shareholders Equity	61,151,191.0	64,931,931.0	66,826,083.1	69,641,973.0	72,715,958.5

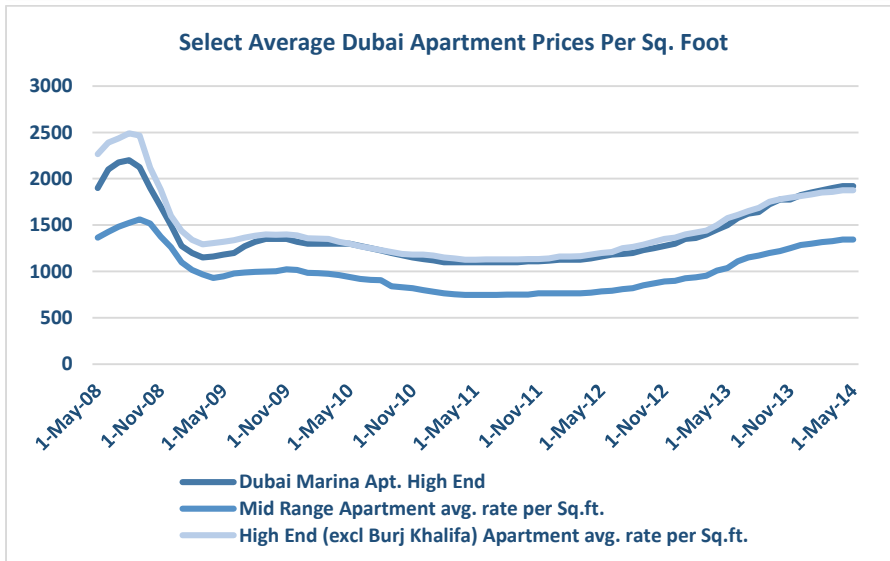
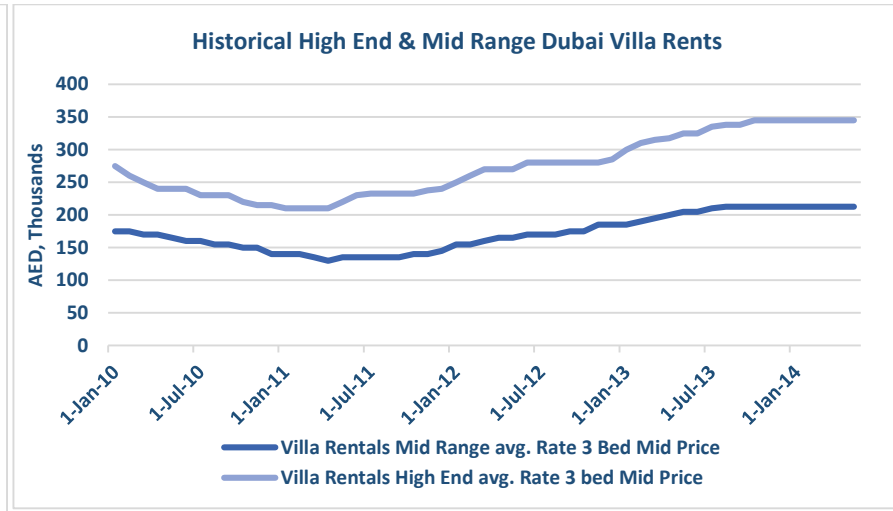
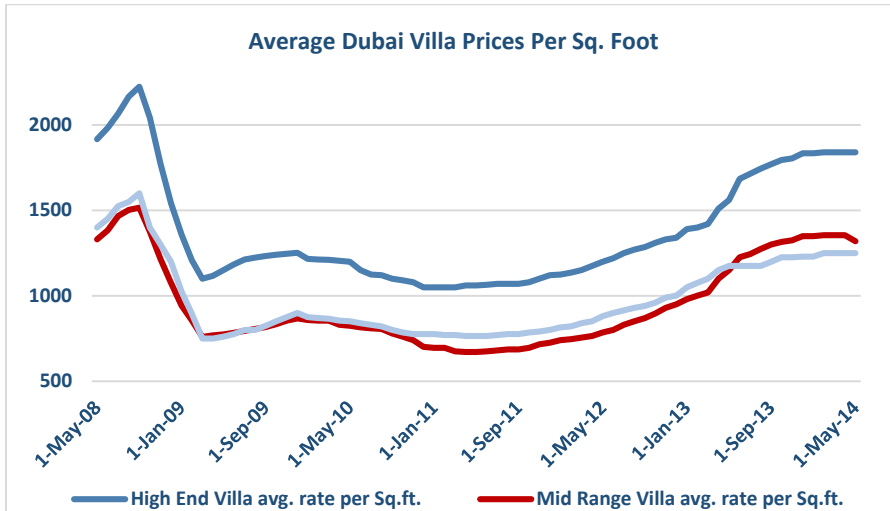
Source: Company Financials, OABInvest

Cash Flow					
For the Fiscal Period Ending	2012	2013	2014E	2015E	2016E
Currency	AED	AED	AED	AED	AED
Units	Thousands	Thousands	Thousands	Thousands	Thousands
Operating Activities					
Trade Receivables	(182,123.0)	411,217.0	(74,952.1)	(62,801.3)	(69,723.9)
Development Properties	(386,941.0)	1,131,510.0	(725,683.3)	(1,930,600.7)	(2,997,000.0)
Trade and Other Payables	(35,862.0)	(255,175.0)	319,756.8	185,857.4	206,646.5
Cash Flow from Operating Activities	1,526,799.0	3,814,566.0	2,509,368.5	1,540,304.3	814,620.2
Investing Activities					
Property, Plant and Equipment	(91,306.0)	(193,433.0)	250,445.3	(68,290.9)	(25,646.2)
Investment Properties	(167,854.0)	60,381.0	394,555.6	331,426.7	344,683.7
Other Assets, Receivables, Deposits and Prepayments	(157,427.0)	266,752.0	423,133.9	357,713.5	371,256.9
Cash Flow from Investing Activities	(304,667.0)	420,102.0	1,068,134.7	620,849.2	690,294.4
Financing Activities					
Interest-bearing Loans and Borrowings	(1,316,163.0)	144,363.0	253,361.1	147,265.2	163,737.5
Others	(893,419.0)	(559,857.0)	(517,575.9)	(1,196,098.8)	(1,339,139.6)
Cash Flow from Financing Activities	(986,177.0)	1,467,779.0	(1,415,851.9)	(717,816.4)	(807,358.7)
Cash Flow at the beginning of period	2,865,272.0	3,710,561.0	8,572,804.0	8,598,186.0	8,799,824.7
Changes in Cash Flow	845,289.0	4,862,243.0	25,382.0	201,638.7	(683,032.9)
Cash Flow at the end of the period	3,710,561.0	8,572,804.0	8,598,186.0	8,799,824.7	8,116,791.8

Source: Company Financials, OABInvest

Key Ratios					
	2012	2013	2014E	2015E	2016E
Du Pont Analysis					
Return on Average Assets, A	3.5%	4.1%	4.6%	5.0%	5.2%
Leverage Ratio (Avg Assets/Avg Equity), B	1.90	1.88	1.84	1.79	1.76
ROaE, A*B	6.7%	7.7%	8.4%	8.9%	9.2%
Du Pont Analysis					
Net Income / Pretax income (1)	1.26	1.15	1.13	1.12	1.11
Pretax income / EBIT (2)	0.71	0.79	0.81	0.83	0.84
EBIT / Sales (3)	0.29	0.28	0.28	0.28	0.28
Sales / Assets (4)	0.14	0.16	0.18	0.19	0.20
Assets / Equity (5)	1.90	1.88	1.84	1.79	1.76
ROaE (1)*(2)*(3)*(4)*(5)	6.7%	7.7%	8.4%	8.9%	9.2%
Profitability Ratios					
Gross Margin %	50.7%	49.9%	50.3%	50.7%	50.7%
EBITDA Margin %	38.3%	35.6%	34.6%	34.3%	33.9%
EBIT Margin %	34.2%	30.6%	30.4%	30.2%	29.8%
PBT Margin %	25.6%	24.7%	25.1%	25.3%	25.2%
Net Profit Margin %	25.7%	24.9%	25.2%	25.5%	25.4%
Return on Equity %	6.7%	7.7%	8.4%	8.9%	9.2%
Return on Assets %	3.5%	4.1%	4.6%	5.0%	5.2%
Efficiency measurements					
Current Ratio	4.20	4.75	4.67	4.83	4.98
Quick Ratio	0.45	1.07	1.03	1.03	0.93
Per share measurement					
EPS Basic (RO)	0.35	0.42	0.42	0.47	0.52
DPS (RO)	0.1	0.3	0.2	0.2	0.2
BV per share	5.34	5.65	5.20	5.50	5.83
Leverage measurements					
Gross debt/equity (x)	1.62	1.64	1.46	1.49	1.53
Leverage (x)	1.90	1.88	1.84	1.79	1.76
Debt/assets (%)	0.16	0.15	0.16	0.15	0.15
Cash/assets (%)	0.06	0.13	0.13	0.13	0.11
Net debt / equity	0.19	0.04	0.05	0.05	0.07
Dividend cover (x)	3.48	1.68	2.50	2.50	2.50
Dividend yield (%)	3%	4%	2%	2%	2%
Dividend pay-out ratio (%)	29%	59%	40%	40%	40%
Growth %					
Revenues	1.6%	25.3%	14.8%	10.9%	10.2%
EBITDA growth	0.9%	16.3%	11.6%	9.9%	9.1%
EBIT growth	1.0%	19.6%	15.5%	11.2%	9.3%
Net Income	18.2%	21.2%	16.4%	12.0%	9.8%
Equity	3.9%	6.2%	7.2%	5.8%	6.0%
Total Assets	1.8%	6.2%	2.9%	4.2%	4.4%
Valuation Ratios					
PE (X)	9.88	16.47	21.67	19.35	17.63
P/B (X)	0.64	1.22	1.75	1.65	1.56
EV/EBITDA	12.12	16.83	16.30	14.83	13.79
EV/Sales	4.65	5.99	5.64	5.09	4.68

Source: Company Financials, OABIInvest



Source: Cluttons CLTS Indices on Bloomberg, OABIInvest

Peer-Group Valuations

	Currency	Mkt Cap USD m	P/B		P/E			Div Yield (%)	ROE (%)	Gearing (%)	EBITDA Margin	EV/EBITDA*14
			2013	2013	2014E	2015E	2013	2013	2013	2013	2013	
Aldar Properties	AED	7.73	1.74	8.95	14.33	21.24	1.9	20.3	84.2	27.3	16.73	
Emaar Properties	AED	17.74	1.74	21.57	21.93	18.31	1.5	8.1	29.0	36.4	16.06	
Deyaar Development	AED	1.68	1.49	33.13	46.52		0.0	4.6	20.2	30.1	34.19	
Rak Properties	AED	0.53	0.54	12.13	19.40		5.2	4.3	20.3	34.6	20.19	
Union Properties	AED	1.93	3.29	4.14	17.33	10.58			37.9	9.3	44.41	
UAE			1.76	15.98	23.90	16.71	2.1	9.3	38.3	27.5	26.31	
Arriyadh Development Co.	SAR	0.77	1.68	15.65	14.63		5.2	11.004	0	75.6	14.24	
Dar Al Arkan	SAR	3.57	0.78	19.08	16.17	12.67		4.094	34.7	34.3	13.89	
Emaar Economic City	SAR	3.48	1.65	45.05	44.75	19.94		3.772	67.7	51.2	46.50	
Saudi Real Estate Co	SAR	1.35	1.53	32.64	27.52	24.43	2.4	4.700	0.0		24.37	
Saudi Arabia			1.41	28.10	25.77	19.01	3.8	5.89	25.6	53.67	24.75	
Palm Hills Development	EGP	0.75	1.41	18.68	28.55	10.26		6.786	86.6	13.3	24.46	
PIK Group	RUB	1.54	2.59	6.54	31.65	4.63		59.207	145.0	22.2	4.79	
SINPAS REIT	TRY	0.24	0.49	19.05	28.37	8.60		2.892	38.1	7.6	8.10	
EMLAK REIT	TRY	4.67	1.15	9.78	28.58	8.95	4.7	18.809	9.2	39.0	6.16	
Regional ex. Saudi Arabia			1.41	13.52	29.29	8.11	4.7	21.92	69.72	20.52	10.88	

Source: Bloomberg, OABInvest

Recommendation

Based on the range for the upside/downside offered by the 12-month target price of a stock versus the current market price

Strong Buy	Greater than 20%
Accumulate	Between +10% and +20%
Hold	Between +10% and -10%
Reduce	Between -10% and -20%
Sell	Lower than -20%

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Oman Arab Bank - Investment Management Group (IMG)



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